

**CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, FEBRUARY 28, 2006**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, February 28, 2006, commencing at 7:02 a.m.

A. ROLL CALL

Present: Council Members – Beckman, Johnson, Mounce, and Mayor Hitchcock

Absent: Council Members – *Hansen

Also Present: City Manager King, City Attorney Schwabauer, and City Clerk Blackston

**NOTE: Council Member Hansen was absent due to his attendance at the American Public Power Association Legislative Rally in Washington, D.C.*

B. TOPIC(S)

B-1 "Set-aside of Community Development Block Grant funds for an Economic Development Program"

Joseph Wood, Community Improvement Manager, noted that the March 1 City Council agenda will include a request for \$150,000 set-aside of Community Development Block Grant (CDBG) funds for an economic development program.

Carleen Bedwell, Managing Principal of *Applied Development Economics*, stated that her firm assists cities and counties with economic development. She reported that, by state law, 30% of small communities' CDBG money goes into economic development. Currently, there are 180 small cities and some counties that are in the state program. Lodi has an economic development strategy that focuses on retail and industrial development. She stated that Lodi also has the opportunity to use CDBG money to assist in job growth. CDBG money must be used to meet national objectives of benefiting low- and moderate-income persons, meeting an urgent need that is a health and safety issue, and to addressing slums and blight. Ms. Bedwell explained that the public benefit in economic development programs is job creation for low- and moderate-income persons, with one job created per \$35,000 in CDBG funds. The money is used to leverage private investment. It is an incentive to generate business growth. Ms. Bedwell stated that the best use of the money would be in a loan to businesses. The state requires that the job creation occur within two years; however, the county is more flexible. The county is strongly encouraging and cooperative about the City of Lodi initiating the economic development component of CDBG because it wants to use it as a model for other communities within the county.

City Manager King commented that this program would not only leverage private investment, but on the repayment side, it could capitalize a revolving loan fund. He reported that several heavy manufacturing businesses in Lodi have expressed an interest in purchasing equipment if an affordable interest rate loan were available. Businesses that have expressed an interest in a CDBG economic development program include Holtz Rubber, Cottage Bakery, and Hampton Inn.

Community Development Director Hatch explained that many small jurisdictions have joined the county in a consortium and are bound by federal regulations for the program. The county provides oversight and administration. At set points in time, cities have an opportunity to leave the consortium and administer the program on their own behalf. Lodi has two more years on its contract with the county to administer the CDBG program.

Ms. Bedwell stated that federal regulations allow for business assistance loans, money for public infrastructure that is associated with a business project, and micro enterprise programs for businesses that have five or fewer employees (at least one of which is an owner). In addition, economic development services can be paid for in relation to a particular business project such as assistance with training. Ms. Bedwell stated that details of the program would be brought back to Council for its consideration and approval.

In reply to Mayor Pro Tempore Johnson, Ms. Bedwell stated that the City would be protected in the case of default by having sufficient collateral built into the loan. The federal government requires an underwriting analysis, the details of which will be contained in the guidelines that will be brought forward to Council. She noted that the underwriting analysis could be done by a consultant, city staff, or the county. A loan committee would make a recommendation to the representative of the City responsible for approving loans.

Discussion ensued regarding administration fees. City Manager King reported that the county takes over \$200,000 from the CDBG program for administrative fees. Mr. Wood added that the City is allocated a separate amount for its administration of the program.

In response to Council Member Mounce, Mr. King confirmed that eminent domain is not allowable under the program.

PUBLIC COMMENTS:

- Myrna Wetzel asked for clarification on the allocation of funding and whether it stays within the City limits.

Ms. Bedwell replied that, normally, the funds go to businesses inside the City limits.

Mr. Wood explained that the federal allocation distributed to the county is done through a formula based on population and the percentage of low to moderate income within the population.

C. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

None.

D. ADJOURNMENT

No action was taken by the City Council. The meeting was adjourned at 8:18 a.m.

ATTEST:

Susan J. Blackston
City Clerk



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Set-Aside of CDBG Funds for an Economic Development Program

MEETING DATE: February 28, 2006

PREPARED BY: Community Improvement Manager

RECOMMENDED ACTION: Receive a report and presentation on the proposed set-aside of CDBG funds for use in an Economic Development Jobs Program.

BACKGROUND INFORMATION: The City Council is set to conduct a Public Hearing on March 1, 2006, to review and approve proposed recommendations for use of 2006/07 Community Development Block Grant (CDBG) funding.

One of the funding recommendations to be considered at the public hearing will be the City Manager's request for the set-aside of CDBG funds for use in an Economic Development Jobs Program. The purpose of this presentation is to introduce Council to the concept of the use of CDBG funds for economic development, specifically for the creation of jobs within the community.

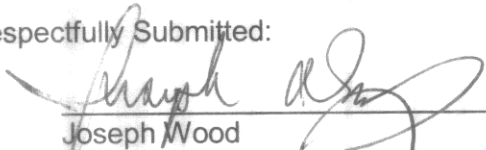
In order to establish the groundwork for such a program, the City Manager has hired consultant Carleen Bedwell, Managing Principal with Applied Development Economics, to assist staff with identifying the necessary requirements and guidelines for the proposed program to meet HUD regulations.

In her initial review of the applicable regulations pertaining to the use of CDBG funds, Ms. Bedwell has determined that in using a portion of the funds available, the City of Lodi has the opportunity to establish an economic development component within its CDBG program. With such a program the City could use CDBG funds to partner with private sector activities to attract, retain, or expand industrial, commercial or service businesses and to create local jobs as a result. In some cases CDBG funds can be used to set the stage for major City economic development projects. The City also has the opportunity to use the funds in a manner that will enable them to become a revolving source of funding for the City to reuse for future economic development activities.

Attached, is the working draft of Ms. Bedwell's findings in her report to the City Manager. In support of Community Development Department staff, Ms. Bedwell will be present to share her findings and answer any questions that the Council may have on this issue.

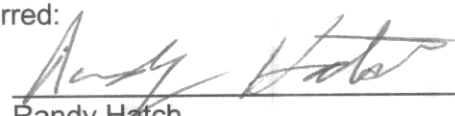
FUNDING: Not applicable at this time.

Respectfully Submitted:



Joseph Wood
Community Improvement Manager

Concurred:



Randy Hatch
Community Development Director

Attachment

APPROVED:



Blair King, City Manager



MEMORANDUM

To: Blair King, City Manager, City of Lodi
From: Carleen Bedwell, Managing Principal
Date: February 22, 2006
Re: Economic Development Component, City CDBG Program

CITY OF LODI CDBG FUNDS

Annually the City of Lodi receives its Community Development Block Grant (CDBG) funds from the San Joaquin County Community Development Block Grant program. The original source of the County funds is the Department of Housing and Urban Development (HUD).

The City's 2006-07 allocation of CDBG funds from the County is \$xxxxxxxxxx. In addition, the City has \$yyyyyyyyy in past allocated funds which are available for re-allocation. A third source of CDBG funds is CDBG Program Income, which are the repayments to the City of previous loans made to local residents from CDBG funds. In total, the City has \$zzzzzzzzzz in CDBG funds which are available for allocation or reallocation at this time.

CDBG FUNDS AND ECONOMIC DEVELOPMENT

An eligible and active use of CDBG funds by communities throughout the nation is for the purpose of economic development. HUD has recognized that among community development needs is the need to promote the health and vitality of the local economy. A 2002 report prepared for HUD documented \$8 billion in CDBG funds were expended for economic development during the 1990's. The California State Small Cities CDBG program annually sets aside 30% (more than \$10 million) of its allocation from HUD for economic development..

Communities are increasingly proactive in economic development in order to stimulate business and job growth, revitalize downtowns, increase retail sales and revenue, attract new businesses, expand infrastructure, and increase local investment. Throughout California a wide variety of tools and resources are put to use in the public-private partnership of economic development. One of the resources available is the use of CDBG funds.

The City of Lodi has an economic strategy, adopted in 1998, with priorities for downtown revitalization and industrial growth. Since its adoption, the City has proceeded with a number of programs, to the extent resources and market activity have coincided. With the



growth of the community and the active economy of the Sacramento region, the City is considering additional resources which can be used to stimulate business and job growth for the benefit of Lodi residents.

Using a portion of the funds available, the City of Lodi has the opportunity to establish an economic development component within its CDBG program. With such a program the City could use CDBG funds to partner with private sector activities to attract, retain, or expand industrial, commercial or service businesses and to create or retain local jobs as a result. In some cases CDBG funds can be used to set the stage for major City economic development projects. The City also has the opportunity to use the funds in a manner that will enable them to become a growing resource for the City to reuse for future CDBG-eligible activities.

HUD REQUIREMENTS RE CDBG ECONOMIC DEVELOPMENT

If the City were to establish an economic development component within its CDBG Program, the following requirements must be built into it, to comply with federal requirements.

CDBG National Objectives

The CDBG program enables communities to design the economic development program that best meets local needs, as long as the activities are in accordance with the program's National Objectives and requirements. The use of CDBG funds for economic development must meet one of the National Objectives of: benefit to low- and moderate-income persons; elimination of slums and blight; or urgent need. The most common CDBG National Objective met is that of benefit for low-moderate income persons.

Public Benefit

When CDBG funds are used for economic development, job creation or retention must occur, regardless of the National Objective being met. At least one full-time job (or its equivalency) must be created or retained for every \$35,000 of CDBG funds spent. The job must be documented and if the national objective being met is that of low-moderate income benefit, then the household income of the worker must be verified to determine that the low-moderate income benefit was achieved.

Davis-Bacon

In the event CDBG funds are used for construction activities, the Davis-Bacon requirements regarding wages and other labor standards will likely be triggered.



Environmental Review

Specific uses of the CDBG funds must show compliance with the environmental review requirements.

Relocation and Acquisition

If a specific use of CDBG funds involves acquiring land or structures or displacement of an existing business, the Uniform Relocation and Real Property Assistance Act would be triggered.

Additional Requirements

Depending on the specific elements of a City Economic Development component, additional HUD requirements may come into play. These are included in the discussion below.

ELEMENTS OF AN ECONOMIC DEVELOPMENT COMPONENT

Following are the types of programs for which HUD permits CDBG Economic Development funds to be used. In every element the Public Benefit must be met. There must be the creation or retention of jobs, at the maximum amount of \$35,000 in CDBG funds for every full time job created.

Business Assistance Loans

CDBG funds can be used for such purposes as: working capital, real estate acquisition, construction or improvements to a business facility, equipment purchase, or inventory purchase. This is one of the two most common elements of CDBG economic development activity. As these loans are repaid, the funds remain with the community making the loan, and are to be reused for other CDBG-eligible activities, creating a “Revolving Loan Fund” (RLF).

Public Infrastructure Improvements

Funds may be used for public infrastructure associated with a business project. Examples include roads, or water/sewer to a business site. This element is the second of the two most common uses of CDBG economic development funds.

Special Economic Development Projects

There may be occasions when the City has the opportunity to participate in an economic development project in some way other than a business loan or public infrastructure. For example, another community used its economic development CDBG funds to acquire a site from another government entity, which then will be developed by



the private sector use, with new jobs, new businesses and new local investment resulting. With the job creation, this is an eligible use of CDBG funds.

Microenterprise Activities

Funds may be used for microenterprise activities in support of businesses with five or fewer employees, at least one of whom owns the enterprise; and training and technical assistance to increase the capacity of recipients to carry out the microenterprise activity. This element requires a specialized program focused only on microenterprise operations, training, and support services. Low-moderate income persons must benefit.

Economic Development Services

An eligible use of funds is economic development services performed in conjunction with other CDBG economic development activities, such as training or business support services.

CITY OF LODI CDBG REVOLVING LOAN FUND

In the event the City wishes to proceed with using a portion of its CDBG funds for economic development, the first activity for the City to consider is a Business Revolving Loan Fund. Other projects and elements can be added as opportunities arise.

With a Business Revolving Loan Fund the City would make loans to businesses in return for the public benefit of creating or retaining jobs, through business attraction, expansion and retention. As the loans are repaid, the City retains the funds as “CDBG Program Income” and the money is available for reuse (i.e., relending) for new CDBG business loans or other CDBG-eligible uses. As an example, one relatively small Sacramento community has a loan program of more than \$1 million, built up through the judicious use of CDBG loans and CDBG Program Income.

BUSINESS RLF PROGRAM DESIGN

If the City wishes to proceed with establishing a Business Revolving Loan Fund (RLF), there are key factors in the program design and structure to be decided by the City. These include:

Funding of the Program

The City should determine how much CDBG money it wishes to make available for the Revolving Loan Fund, in its initial establishment.



Program Administration

Operating a loan program requires a variety of activities, such as: program marketing and intake; loan underwriting, loan origination, loan servicing and program reporting. These functions can be performed by City staff, by City consultants, by other local agencies such as the San Joaquin County CDBG Program, or a local Economic Development Corporation. Responsibilities can also be divided among multiple entities.

Types of Borrowers to Assist

The City has the opportunity to use the RLF to achieve certain economic development priorities. Decisions can be made which state a preference for loans based upon such factors as: size of the business; industry type of business; the stage the business is in; and the business location.

Activities to Finance

The City can indicate the types of activities for which it wishes to loan funds, such as: working capital; purchase of machinery and equipment; acquisition of property; construction or improvements to business facility.

Size of the Loans

The City can establish a dollar limit for its RLF loans, or it can operate without a maximum or minimum.

Underwriting Criteria

HUD requires that all potential loans go through an underwriting process through which the loan request is evaluated. HUD provides loan underwriting criteria as a guideline. The City can use the HUD criteria or establish equivalent criteria.

Loan Structure

Communities have substantial flexibility about structuring the loan, such as the term of the loan, the interest rate, security requirements, deferral or interests-only period.

Loan Documents

A CDBG Revolving Loan Fund has considerable documentation—for the program overall and for the individual loans. Program documents would include RLF Guidelines, and sample Agreements, marketing materials and public information. Individual loans would include such documents as the Loan Agreement, the Promissory Note, and the Employment Agreement.



CITY DECISIONS

1. Does the City wish to proceed with an Economic Development Component of its CDBG Program?
2. What is the amount of money to commit to the program for the first year?
3. Is the first activity the establishment of a Business Revolving Loan Fund?

In the event the above decisions result in the City determination to set aside a portion of the City's CDBG funds for Economic Development and to proceed with the establishment of a Business Revolving Loan Fund using the funds, the next step is to return with recommendations for the RLF program design and operation, including draft documentation.



filed 2-28-06

MEMORANDUM

To: Blair King, City Manager, City of Lodi
From: Carleen Bedwell, Managing Principal
Date: February 28, 2006
Re: Economic Development Jobs Program, City CDBG Funds

CITY OF LODI CDBG FUNDS

Annually the City of Lodi receives its Community Development Block Grant (CDBG) funds through the San Joaquin County Community Development Block Grant program. The original source of the County funds is the Department of Housing and Urban Development (HUD). The City's 2006-07 allocation of CDBG funds from the County is \$717,587. The City Council will hold a Public Hearing March 1, 2006, to receive public comment on the recommended uses of the CDBG funds. Included in the recommendations is \$150,000 for a CDBG Economic Development Jobs Program.

USE OF CDBG FUNDS FOR ECONOMIC DEVELOPMENT

An eligible and active use of CDBG funds by communities throughout the nation is for the purpose of economic development. HUD has recognized that among community development needs is the need to promote the health and vitality of the local economy. A 2002 report prepared for HUD documented \$8 billion in CDBG funds were expended for economic development during the 1990's. The California State Small Cities CDBG program annually sets aside 30% (more than \$16 million) of its allocation from HUD for economic development..

Communities are increasingly proactive in economic development in order to stimulate business and job growth, revitalize downtowns, increase retail sales and revenue, attract new businesses, expand infrastructure, and increase local investment. Throughout California a wide variety of tools and resources are put to use in the public-private partnership of economic development. One of the resources available is the use of CDBG funds.



The City of Lodi has an economic strategy, adopted in 1998, with priorities for downtown revitalization and industrial growth. Since its adoption, the City has proceeded with a number of programs, to the extent resources and market activity have coincided. With the growth of the community and the active economy of the Sacramento region, the City is considering additional resources which can be used to stimulate business and job growth for the benefit of Lodi residents.

Using a portion of the funds available, the City of Lodi has the opportunity to establish an economic development component within its CDBG program. With such a program the City could use CDBG funds to partner with private sector activities to attract or expand industrial, commercial or service businesses and to create local jobs as a result. In some cases CDBG funds can be used to set the stage for major City economic development projects. The City also has the opportunity to use the funds in a manner that will enable them to become a growing resource for the City to reuse for future CDBG-eligible Economic Development activities.

HUD REQUIREMENTS

If the City were to establish an Economic Development Jobs Program within its CDBG Program, the following requirements must be built into it, to comply with federal requirements.

CDBG National Objectives

The CDBG program enables communities to design the economic development program that best meets local needs, as long as the activities are in accordance with the program's National Objectives and requirements. The use of CDBG funds for Economic Development must meet one of the National Objectives of: benefit to low- and moderate-income persons; elimination of slums and blight; or urgent need. The most common CDBG National Objective met is that of benefit for low-moderate income persons.

Public Benefit

When CDBG funds are used for Economic Development, job creation must occur, regardless of the National Objective being met. CDBG requires at least one full-time job (or its equivalency) must be created for every \$35,000 of CDBG funds spent. (A local standard can be established which is lower, such as 1 job created for every \$20,000 spent in CDBG funds.



The jobs must be documented and if the national objective being met is that of low-moderate income benefit, then the household income of the worker must be verified to determine that the low-moderate income benefit was achieved.

Davis-Bacon

In the event CDBG funds are used for construction activities (such as public infrastructure associated with a business project that will create jobs), the Davis-Bacon requirements regarding wages and other labor standards will be triggered.

Environmental Review

Specific uses of the CDBG funds must show compliance with the environmental review requirements.

Relocation and Acquisition

If a specific use of CDBG funds involves acquiring land or structures or displacement of an existing business, the Uniform Relocation and Real Property Assistance Act would be triggered.

Additional Requirements

Depending on the specific elements of a City Economic Development Jobs Program, additional HUD requirements may come into play. These are included in the discussion below.

TYPES OF ACTIVITIES

Following are the types of activities for which HUD permits CDBG Economic Development funds to be used. **In every element a National Objective (e.g., benefit to low-moderate income persons) and the Public Benefit (i.e., one job per \$35,000 or less in CDBG funds) must be met.**

Business Assistance Loans

CDBG funds can be loaned to for-profit businesses -- which will create jobs -- for such purposes as: working capital, real estate acquisition, construction or improvements to a business facility, equipment purchase, or inventory purchase. Business loans are one of the two most common CDBG Economic Development activities. As these loans are repaid, the funds remain with the community making the loan, and are to be reused for other CDBG-eligible Economic Development activities, in a "Revolving Loan Fund" (RLF).



Public Infrastructure Improvements

CDBG Economic Development funds may be used for public infrastructure associated with a business project which will create jobs. Examples include roads, or water/sewer to a business site. This activity is the second of the two most common uses of CDBG Economic Development funds.

Special Economic Development Projects

There may be occasions when the City has the opportunity to participate in an economic development project in some way other than a business loan or public infrastructure. The important factor will be if the project meets a CDBG National Objective and Public Benefit.

Microenterprise Activities

Funds may be used for microenterprise activities in support of businesses with five or fewer employees, at least one of whom owns the enterprise; and training and technical assistance to increase the capacity of recipients to carry out the microenterprise activity. This element requires a specialized program focused only on microenterprise operations, training, and support services. Low-moderate income persons must benefit.

Economic Development Services

An eligible use of funds is economic development services performed in conjunction with other CDBG economic development activities, such as training or business support services.

SAN JOAQUIN COUNTY CDBG PROGRAM

Because the City CDBG funds are passed through from the San Joaquin County CDBG Program, the City's use of CDBG funds must be consistent with the plan, priorities and requirements of the County program. The County is very supportive of the City establishing a CDBG Economic Development program, having been encouraged by HUD to have Economic Development activities within the uses of local CDBG funds. The City of Lodi would be the first community in the County's CDBG program to incorporate Economic Development, and as such would serve as a model for others. As the City proceeds with CDBG Economic Development, the details of the program will be coordinated with the County prior to finalization.



BUSINESS REVOLVING LOAN FUND (RLF)

To proceed with using a portion of its CDBG funds for an Economic Development Jobs Program, the first activity to consider is a Business Revolving Loan Fund. Other jobs activities can be added as opportunities arise.

With a Business Revolving Loan Fund the City would make loans to businesses in return for the public benefit of creating jobs, through business attraction and expansion. As the loans are repaid, the City retains the funds as "CDBG Program Income" and the money is available for reuse (i.e., relending) for new CDBG business loans or other CDBG-eligible Economic Development uses. As an example, one relatively small Sacramento community has a loan program of more than \$1 million, built up through the judicious use of CDBG loans and CDBG Program Income.

PROGRAM DESIGN

To proceed with the establishment of an Economic Development Jobs Program, with the Business Revolving Loan Fund (RLF) as the first activity, there are key factors in the program design and structure to be decided by the City. These include:

Funding of the Program

The City should determine how much CDBG money it wishes to make available for the Revolving Loan Fund. \$150,000 has been recommended from the City's 2006/07 CDBG funds.

Program Administration

Operating a loan program requires a variety of activities, such as: program marketing and intake; loan underwriting, application review and loan approval, loan documentation and disbursement, loan servicing and program reporting. These functions can be performed by City staff, by City consultants, by other local agencies such as the San Joaquin County CDBG Program, or a local Economic Development Corporation. Responsibilities can also be divided among multiple entities. The County provides loan program assistance for the City's loan programs in housing rehabilitation and HOME program, and the City would consider using their services for the business loan program.

Types of Borrowers to Assist

The City has the opportunity to use the RLF to achieve certain economic development priorities. Decisions can be made which state a preference for loans based upon such



factors as: size of the business; industry type of business; the stage the business is in; and the business location.

Activities to Finance

The City can indicate the types of activities for which it wishes to loan funds, such as: working capital; purchase of machinery and equipment; acquisition of property; construction or improvements to business facility.

Size of the Loans

The City can establish a dollar limit for its RLF loans, or it can operate without a maximum or minimum.

Amount of Funds Per Job

The City has the option of indicating a lower ratio of job-per-CDBG-\$ than the maximum of \$35,000 per job.

Underwriting Criteria

HUD requires that all potential loans go through an underwriting process through which the loan request is evaluated. HUD provides loan underwriting criteria as a guideline. The City can use the HUD criteria or establish equivalent criteria.

Leverage

The minimum standard for private leverage should be established in the loan program.

Period for Job Creation

The time by which jobs must be created should be determined and incorporated in loan performance requirements.

Loan Structure

Communities have substantial flexibility about structuring the loan, such as the term of the loan, the interest rate, security requirements, deferral or interests-only period.

Loan Documents

A CDBG Revolving Loan Fund has considerable documentation—for the program overall and for the individual loans. Program documents would include RLF Guidelines, and sample Agreements, marketing materials and public information. Individual loans would include such documents as the Loan Agreement, the Promissory Note, and the Employment Agreement.



CITY DECISION

Is the first activity for the establishment of the City's CDBG Economic Development Jobs Program to be the Business Revolving Loan Fund, using \$150,000 from the 2006/07 CDBG Allocation?

If so, the next step is to return to the City Council with recommendations for the RLF program design and operation, including draft documentation. Coordination with the County CDBG Program will occur prior to returning with the Program details.